

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Public Works	(2) MEETING DATE 1/10/2012	(3) CONTACT/PHONE Doug Bird, Hydraulic Operations Administrator (805) 781-5116	
(4) SUBJECT Hearing to consider protests to a proposed water service charge increase in San Luis Obispo County Service Area No. 10A (Cayucos) and consider adoption of the ordinance if no majority protest exists.			
(5) RECOMMENDED ACTION It is our recommendation that your Honorable Board: <ol style="list-style-type: none"> 1. Hold a hearing to consider protests to the proposed increase in Water Service Charges in County Service Area No. 10A, and upon conclusion of the hearing determine whether there is a majority protest; and 2. If there is not a majority protest, adopt the attached Ordinance, which amends the Water Service Charges in County Service Area No. 10A. 			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT N/A	(8) ANNUAL FINANCIAL IMPACT N/A	(9) BUDGETED? N/A
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. 30 min.) <input type="checkbox"/> Board Business (Time Est. _____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A		(12) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(13) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(14) W-9 <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
(15) LOCATION MAP Attached	(16) BUSINESS IMPACT STATEMENT? No	(17) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date 11/22/11	
(18) ADMINISTRATIVE OFFICE REVIEW			
(19) SUPERVISOR DISTRICT(S) District 2 -			

Reference: 12JAN10-H-1

County of San Luis Obispo



TO: Board of Supervisors

FROM: Public Works

Doug Bird, Hydraulic Operations Administrator

VIA: Dean Benedix, Utilities Division Manager

Will Clemens, Department Administrator

DATE: 1/10/2012

SUBJECT: Hearing to consider protests to a proposed water service charge increase in San Luis Obispo County Service Area No. 10A (Cayucos) and consider adoption of the ordinance if no majority protest exists.

RECOMMENDATION

It is our recommendation that your Honorable Board:

1. Hold a hearing to consider protests to the proposed increase in Water Service Charges in County Service Area No. 10A, and upon conclusion of the hearing determine whether there is a majority protest; and
2. If there is not a majority protest, adopt the attached ordinance, which amends the Water Service Charges in County Service Area No. 10A.

DISCUSSION

The Public Works Department completed the County Service Area No. 10A (CSA 10A) water system Master Water Plan (MWP) in 2003. The MWP was amended to address water storage needs in April 2007, and again in May 2009. During the course of these efforts, the Department has been working with the Cayucos Citizens Advisory Committee (CCAC) to prioritize improvements and develop funding recommendations that will have the least impact on water rates. As a result, staff recommendations have been developed with the on-going concurrence of CCAC.

On June 30, 2011, District staff met with the CCAC CSA 10A sub-committee to discuss the proposed project and at that time the sub-committee members indicated their support for the proposal. On December 7, 2011, District staff conducted a presentation before the CCAC and members of the Cayucos community. At the conclusion of the meeting, the CCAC indicated that they would again be discussing the proposed rate increase at their regularly scheduled meeting on January 4, 2012.

District staff will be in attendance at that meeting and will provide a verbal update to your Board at the hearing on January 10, 2012.

The last rate increase in CSA 10A was approved in February 2005. In working with community representatives during that rate increase process, policies were established by your Board on October 26, 2004 to minimize the 2005 rate increase to only cover pre-construction work on the capital projects. It was recognized at that time that the need would exist to return with a subsequent rate increase to fund construction. Today's recommended action is consistent with that policy.

Analysis of Prior Rate Increases

Over the past four fiscal years, actual revenues have been lower than projected while expenditures for operations and capital improvements were higher than projected. In addition, CSA 10A revenues have also been affected by legislation since the last rate increase which shifted property tax revenues from Special Districts. Exhibit "A" compares the projected revenues and expenditures at the time of the last rate increase to the actual amounts over the same time period. Overall, normal annual revenues are sufficient to cover operations and maintenance, and charges for the community water treatment plant. They are not, however, sufficient to cover capital replacement and improvement projects.

Operations and Maintenance/Water Treatment Charges

Specific work which has led to operating expenditures increasing over projections include:

- Increased water treatment costs relating to the installation of a filter unit at the treatment plant which improves the taste and odor of the water for the community.
- Unanticipated maintenance on the existing CSA 10A water tank increased costs during this time period.
- Additional maintenance is needed on the interior of the existing tank which is included in this current rate increase proposal.

Capital Replacement and Improvements

A greater degree of pre-construction work on the capital projects needs to be funded through this current rate increase in addition to the actual construction originally planned. Included in this pre-construction work are application costs for a United States Department of Agriculture (USDA) loan. This is an advantageous program that provides low interest rates coupled with a longer repayment period to minimize the impact to water rates.

The highest priorities identified by the CCAC in the MWP were those that would benefit the entire community by rehabilitating the existing water tank, replacing certain water lines, and improving fire protection capabilities throughout the community.

Capital Improvement Priorities:

- Rehabilitation of Existing Water Tank and Waterline Replacement

The existing water tank is over 40 years old and is in need of rehabilitation and repairs including recoating of the tank interior and replacement of the tank roof to ensure its continued service. The costs for rehabilitation of the existing tank are approximately one-third the cost of replacing the tank. The waterline in Shearer Avenue has aging infrastructure that is in constant need of repair. In addition, the lines are undersized and therefore not capable of meeting current fire flow requirements if a major fire were to occur. The estimated cost for these improvements is \$1.62 Million.

Attachment “B” is a “Summary Report on Water Distribution System Needs and Recommended Improvements” and provides a detailed “Engineer’s Cost Estimate” for the proposed project.

- Other Capital Improvement Projects

Initial efforts will concentrate on environmental studies and permitting necessary for the future design and construction of an additional water storage tank. Necessary preliminary engineering efforts were previously initiated and are nearing completion. The environmental process is anticipated to take two years to complete with an estimated cost of \$120,000. If project approval is received, the estimated cost for design and construction for these improvements is \$1.1 Million. Attachment “B” also includes an Engineer’s Cost Estimate for this project.

Environmental Review Requirements

The County Environmental Coordinator has determined that the action to adjust water rates in CSA 10A through the Proposition 218 process is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to sections 15378(b)(5) (administrative activities) and 15378(b)(4) (government funding mechanisms) of the CEQA Guidelines. However, it must be noted that any capital projects subsequently funded by this action will be subject to CEQA review, once sufficient project detail is developed, in order to allow the environmental analysis to be completed in a meaningful manner.

OTHER AGENCY INVOLVEMENT/IMPACT

County Counsel has reviewed the subject ordinance and approved it as to legal form and effect. The County Clerk published notice of the Public Hearing. Required public notice in accordance with Article XIID of the California Constitution and the Proposition 218 Omnibus Implementation Act (commencing with Section 53750 of the California Government Code) has been satisfied. The Cayucos Citizens Advisory Committee has been involved in prioritizing the capital improvements to be constructed, as well as discussions involving the rate increase needed to fund these Capital Improvement Projects. An informational presentation was given to the community at the December 7, 2011, Cayucos Citizens Advisory Committee meeting.

FINANCIAL CONSIDERATIONS

The recommended changes to the Basic Bi-Monthly Charge for Water Service represent \$35.33 (\$17.67 per month). The adjustment will generate additional revenues of approximately \$160,000 per year. This adjustment is required to repay the anticipated loan from USDA Rural Development Water and Waste Disposal Program and to fund preliminary costs on Other Capital Improvements Projects. Attachment "C" identifies the significant factors used to calculate the proposed rates.

The recommended annual adjustment of all rates by January 1st, based on the Consumer Price Index, will ensure sufficient revenues are generated to offset annual inflationary increases in expenditures.

RESULTS

Adjusting water rates in CSA 10A will ensure sufficient revenue needed for necessary Capital Improvements, which will contribute to a safe, healthy, livable, and well-governed community in Cayucos.

File: Districts/CSA 10A

Reference: 12JAN10-H-1

L:\UTILITY\JAN12\BOS\CSA 10A Rate Increase Ord hearing bd ltr.doc.DB:mac

ATTACHMENTS

1. Vicinity Map
2. Revenues and Expenses (7 Year History)
3. Summary Report on Water Distribution Needs and Recommended Improvements
4. Water Service Rates
5. Ordinance Establishing Water Service Charges for San Luis Obispo County Service Area 10(A) Cayucos